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C O N F I D E N T I A L SECTION 01 OF 02 DJIBOUTI 000699

SIPDIS

STATE FOR AF, AF/E, AND EB

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TAGS: [ECON](#) [ETRD](#) [EWWT](#) [ELTN](#) [DJ](#)

SUBJECT: THROUGH-BILL-OF-LADING A CONCERN FOR DJIBOUTIAN
TRANSIT COMPANIES

Classified By: Pol/Econ Erinn C. Stott for reasons 1.4 (b) and (d).

1. (U) Summary: The number of freight forwarding businesses in Djibouti has greatly increased since Ethiopia's shift from the Port of Assab in Eritrea. The existing companies complain that many of the new freight forwarding companies are causing unfair competition by skirting many of the expensive regulations and offering lower prices. Transportation through the Ethiopian-Djiboutian corridor is virtually monopolized by Ethiopian trucks, which are more competitive than Djiboutian trucks because they have lower overhead and are willing and able to take payment in Birr. The local companies also end up monopolizing other related sectors by obtaining through-bill-of-lading arrangements. A less important worry at the moment is the future of freight forwarding once the proposed container terminal is completed at the Port of Doraleh. End Summary.

2. (U) The Port of Djibouti accommodates all seaborne imports and exports destined for its huge landlocked neighbor, Ethiopia. Ethiopia stopped using the Port of Assab in Eritrea after it went to war with this country in 1998. Official port statistics show that 2.29 million tons of goods and 1.29 million tons of fuel were imported to Ethiopia through Djibouti in 2004. The quantities were 2.59 million tons and 1.24 million tons respectively in 2003. On the other hand, Ethiopian goods equivalent to 433,470 tons were exported through the Port of Djibouti in 2004 and 338,889 tons in 2003. Entities called "freight forwarding companies" handle all the documentation necessary to clear the goods and charge them on the trucks going to Ethiopia.

3. (U) Ethiopian trucks carry ninety-nine percent of the transportation of commodities destined for Ethiopia or for the Port of Djibouti. At first, some Djiboutian entrepreneurs ventured to get a share of this lucrative business in the Ethio-Djiboutian corridor. This was quickly discouraged by their Ethiopian competitors who offered better rates and did not hesitate to accept payment in Birrs, the Ethiopian currency. Djiboutian counterparts have high overhead costs and can't accept Birrs for payment because there is little demand for Birrs in Djibouti, which makes exchanging fees collected difficult. Ethiopian customers also prefer to pay in Birrs and keep US dollars for purchasing goods from abroad.

4. (C) The Port of Djibouti published a list of 35 official freight-forwarding companies, which reportedly fulfilled the legal requirements to establish and operate in Djibouti. A large number of these were created in the last few years to take advantage of Ethiopian cargo. The long-established freight-forwarding companies complain that there are companies not listed as official which continue to operate and that other listed companies avoid some legal requirements because of relations with high government officials. An committee created by the Government in 2000 to screen companies and deliver licenses to eligible freight-forwarding companies quickly lost its effectiveness after it became clear that the Minister of Transportation was personally approving companies refused licenses by the committee. These companies reportedly do not pay taxes or other duties so can afford to offer low tariffs, making competition unfair.

5. (SBU) Djiboutian freight-forwarding companies have expressed resentment over lengthy delays in payment by their Ethiopian customers. Ethiopians must pay in US Dollars, which are obtained from Ethiopian government owned banks. The Ethiopian government's lengthy bureaucracy causes availability of dollars to be limited and it reportedly often takes up to three months to obtain dollars. Some Ethiopian customers take advantage of this situation by paying as late as six months. A few years ago, the total bill owed by Ethiopian companies to Djiboutian freight-forwarding companies amounted to more than 3.4 million USD. The Djiboutian government did intervene with Ethiopia to resolve the problem.

6. (C) Djiboutian freight-forwarding companies are concerned about the through-bill-of-lading Ethiopia has been pushing for. It is an arrangement whereby purchased goods are handled at every level from supplier to receiver by a single bill of lading. It is a door-to-door system where the Ethiopian customer deals directly with the shipping line. The Government of Djibouti accepts in principle the process of

through-bill-of-lading because it is a modern system and will speed up the goods transfer process. However, the GOD is concerned that it will give a monopoly to the Ethiopian Shipping Line (ESL) at the detriment of the Djiboutian shipping, freight forwarding and transit companies. Local companies fear that ESL will only give its business to Ethiopian Maritime and Transit Services (EMTS) and Ethiopian owned trucks. Also, if ESL becomes the only shipping line handling Ethiopian goods, there is a possibility that it might dictate its conditions to the port as well as to Ethiopian customers. The issue of through-bill-of-lading is still on the table between Ethiopia and Djibouti and has not yet been approved for use.

17. (C) Concerning the Port of Doraleh project, freight forwarding companies interviewed by the Embassy unanimously said they did not have enough information about the subject to comment on its impact. Other companies in other fields stated to us that the Djiboutian government did not consult them on the project, thus they did not feel a part of it. They found it illogical for the government to ask them to invest in a project completely unknown to them. Yet, the freight forwarding companies said they hoped to have the opportunity to operate in the Port of Doraleh when it is completed. They expressed concern that Dubai Ports International (DPI) would eventually monopolize the freight forwarding market. Many companies also said that the interest of DPI in the Port of Aden could prove detrimental to the success of the container terminal at the Port of Doraleh.

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